


# **The Katrina Emergency Tax Relief Act 2005**

**Overview for  
SPEC's Volunteer Return Preparation  
Programs (VITA & TCE) and Outreach**



# Getting started.....

The goal of this presentation is to detail the tax law in the  
**Katrina Emergency**  
Tax Relief Act of 2005



# The Katrina Emergency Relief Act is divided into five Titles:

- **Title I**—Special Rules for use of Retirement Funds
- **Title II**—Employment Relief
- **Title III**—Charitable Giving Incentives
- **Title IV**—Additional Relief Provisions
- **Title V** --Emergency Requirement

# Hurricane Katrina Disaster Area

**An area with respect to which a major disaster has been declared by the President before Sept 14, 2005, under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Katrina.**

**Hurricane Katrina Disaster Areas are Alabama, Florida, Louisiana, and Mississippi.**



## Core disaster area

**That portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal Government under such act.**



# Deadlines for Taxpayers Affected by Hurricanes Extended

**Deadlines postponed until February 28, 2006 to:**

- **File Tax Returns**
- **Pay Taxes**
- **Perform other time-sensitive Acts**

# Deadlines for Taxpayers Affected by Hurricane Katrina Extended (continued)

## Individual Assistance Areas

The tax relief will be automatic – taxpayers will not need to do anything to get the extensions and other relief available.

## Public Assistance Areas

Taxpayers who need to identify themselves as hurricane victims should write “Hurricane Katrina” in red ink at the top of their tax forms or other documents filled with the IRS.

**See IRS Web page** – [irs.gov](http://irs.gov) – For list of areas covered by the Katrina tax relief — Parishes in Louisiana and counties in, Mississippi, Alabama, and Florida are identified as in the “Individual or Public Assistance” areas.

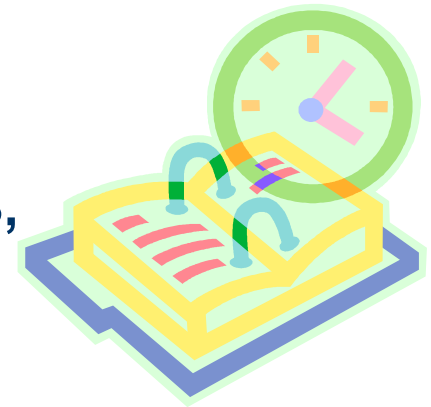
# Tax Favored Withdrawals from Retirement Plans for Relief Relating to Hurricane Katrina

Title I, Section 101

## Effective Date

This provision is effective upon enactment of the Relief Act.

The Katrina Emergency Tax Relief Act was signed by President Bush on September 23, 2005.





# Tax Favored Withdrawals from Retirement Plans for Relief Relating to Hurricane Katrina

(continued)

## Present Law

A **distribution** from a **qualified retirement plan**, **tax sheltered annuity**, **eligible deferred compensation plan** maintained by a governmental agency, or an **IRA**, is generally included in income in the year distributed.

Also, that distribution, if received **before age 59 ½**, **death or disability** generally is subject to a 10% early withdrawal penalty on the amount included in income, barring an exception.

# Tax Favored Withdrawals from Retirement Plans for Relief Relating to Hurricane Katrina

(continued)

## Change in Law

This provision provides for an **exception** to the 10% early withdrawal penalty in the case of a **qualified Hurricane Katrina distribution**.

The qualified distribution is required to be included in income ratably over three years, unless the T/P elects to the contrary. The qualified distribution may be re-contributed to an eligible retirement plan at any time within the next **three** years.

# Tax Favored Withdrawals from Retirement Plans for Relief Relating to Hurricane Katrina

(continued)

## Change in Law (continued)

A **qualified Hurricane Katrina distribution** is a distribution from an eligible retirement plan made on or after **August 25, 2005** and before **January 1, 2007**, to an individual who on **August 28, 2005** lived in the Hurricane Katrina disaster area and who sustained an economic loss from the storm.

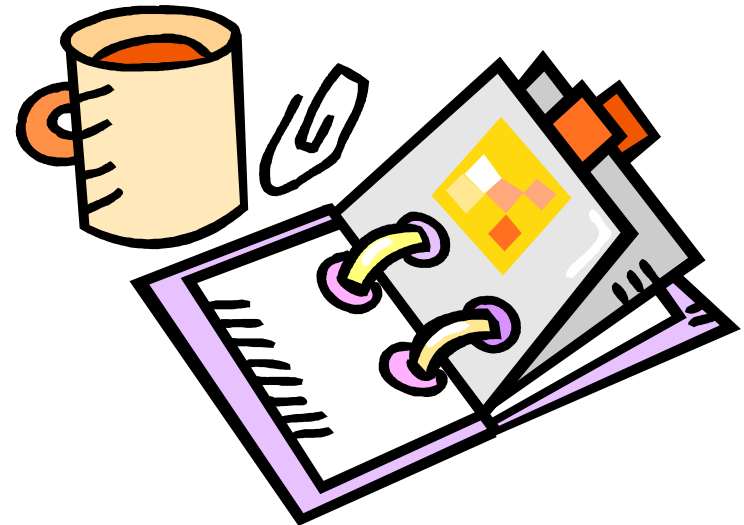
One more thing – the total amount of the distribution under this provision cannot exceed \$100,000 – anything over that reverts back to the present law.

# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina

Title I, Section 102

## Effective Date

This provision applies to taxable years beginning in 2005 and 2006.

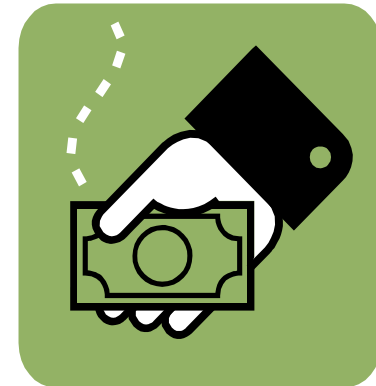


Title 1 - Section 102 is in scope  
for VRPP (VITA & TCE)

# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina (continued)

## Present Law

Generally a distribution from a qualified retirement plan, 403(b) annuity or IRA, if received before age 59 ½, death or disability, is subject to a 10% early withdrawal penalty on the amount included in income, barring an exception.



# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina (continued)

## Exception:

A first-time homebuyer who receives an IRA distribution (not to exceed \$10,000) and uses it within 120 days of receipt to purchase or begin construction on a principal residence.

There are similar provisions (for financial hardship) for recipients of 401(k) and 403(b) distributions who use the funds to purchase a first home.

# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina (continued)

## Change in Law

Under this provision, a distribution received **in order to purchase a home in the Hurricane Katrina disaster area** may be recontributed to a 401(k), 403(b) or IRA, in certain circumstances.

This provision applies to an individual who receives a **qualified distribution**.

# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina (continued)

## Change in Law (continued)

**What counts as a qualified distribution?**

It is a hardship distribution from a 401(k) or 403(b) annuity, or a qualified first time homebuyer distribution from an IRA:

(1) that is received **after February 28, 2005**  
**and before August 29, 2005; and**

(2) that was to be used to purchase a home in the Hurricane Katrina disaster area – but the residence was not purchased or constructed because of the storm.



# Recontributions of Withdrawals for Home Purchases Cancelled due to Hurricane Katrina (continued)

## Change in Law (continued)

Any portion of the qualified distribution may, during the period **beginning on August 26, 2005 and ending on February 28, 2006**, be recontributed to a plan, annuity or IRA to which a rollover is permitted. The recontribution is considered to be a rollover and therefore, not subject to the 10% penalty.



# Work Opportunity Tax Credit for Hurricane Katrina impacted employees

Title II, Section 201

## Effective Date

This provision is effective upon enactment of the Relief Act.  
**President Bush signed the Katrina Emergency Tax Relief Act on September 23, 2005.**

# Work Opportunity Tax Credit for Hurricane Katrina impacted employees (continued)

## Present Law

The Work Opportunity Tax Credit is available on an elective basis for employers hiring individuals from one or more of eight targeted groups.

# Work Opportunity Tax Credit for Hurricane Katrina impacted employees (continued)

## Present Law (continued)

The eight targeted groups are: (1) certain families eligible to receive benefits under the Temporary Assistance for Needy Families Program; (2) high-risk youth; (3) qualified ex-felons; (4) vocational rehabilitation referrals; (5) qualified summer youth employees; (6) qualified veterans; (7) families receiving food stamps; and (8) persons receiving certain Supplemental Security Income (SSI) benefits.

# Work Opportunity Tax Credit for Hurricane Katrina impacted employees (continued)

## Change in Law

The provision provides that a Hurricane Katrina employee is treated as a member of a targeted group for purposes of the Work Opportunity Tax Credit.

# Work Opportunity Tax Credit for Hurricane Katrina impacted employees (continued)

## Change in Law (continued)

A Hurricane Katrina employee is: **(1)** an individual who on August 28, 2005, had a principal place of abode in the core disaster area and is hired during the two-year period beginning on such date for a position, the principal place of employment of which is located in the core disaster area; and **(2)** an individual who on August 28, 2005, had a principal place of abode in the core disaster area, who was displaced from such abode by reason of Hurricane Katrina and is hired during the period beginning on such date and ending on December 31, 2005 without regard to whether the new principal place of employment is in the core disaster area.

# Employee Retention Credit for Employers affected by Hurricane Katrina

Title II, Section 202

## Effective Date

This provision is effective upon enactment of the Relief Act.

**President Bush signed the Katrina Emergency Tax Relief Act on September 23, 2005.**

# Employee Retention Credit for Employers affected by Hurricane (continued)

## Present Law

There is **no employer tax credit** for wages paid solely by reason of such wages being paid by employers in connection with a disaster area.



# Employee Retention Credit for Employers affected by Hurricane (continued)

## Change in Law

The provision provides a **credit of 40 percent** of the qualified wages (up to a maximum of \$6000 in qualified wages per employee) paid by an eligible employer to an eligible employee.

# Employee Retention Credit for Employers affected by Hurricane (continued)

## Change in Law (continued)

An **eligible employer** is any employer (1) that conducted an active trade or business on August 28, 2005, in the core disaster area and (2) with respect to which the trade or business described in (1) is inoperable on any day after August 28, 2005, and before January 1, 2006, as a result of damage sustained by reason of Hurricane Katrina. An eligible employer shall not include any trade or business for any taxable year if such trade or business employed an average of more than 200 employees on business days during the taxable year.

# Employee Retention Credit for Employers affected by Hurricane (continued)

## Change in Law (continued)

An **eligible employee** is, with respect to an eligible employer, an employee whose principal place of employment on August 28, 2005, with such eligible employer was in a core disaster area. An employee may not be treated as an eligible employee for any period with respect to an employer if such employer is allowed a credit under section 51 with respect to the employee for the period.

# Temporary Suspension of Limitations on Charitable Contributions

Title III, Section 301

## Effective Date

This provision is effective upon enactment of the Relief Act.

President Bush signed the Katrina Emergency Tax Relief Act on September 23, 2005.



# Temporary Suspension of Limitations on Charitable Contributions (continued)

## Present Law

Generally, an income tax deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization.

Contributions of cash are deductible in the amount contributed. Contributions of capital gain property are deductible at fair market value, with certain exceptions.

# Temporary Suspension of Limitations on Charitable Contributions (continued)

## Present Law (continued)

For individuals, in any taxable year, the amount a taxpayer can deduct as a charitable contribution is **limited to 50% of AGI** and may be limited to 30% or 20% depending on the type of property and type of organization to which the donation is given.



# Temporary Suspension of Limitations on Charitable Contributions (continued)

## Change in Law

Temporarily exempts **qualified contributions** by individuals from the **contribution base limits** and the phase-out of itemized deductions, for contributions made beginning 8/28/05 until the end of the year.



# Temporary Suspension of Limitations on Charitable Contributions (continued)

## Change in Law (continued)

**Qualified contributions** are **cash** contributions made during the period **beginning on August 28, 2005, and ending on December 31, 2005.**

These contributions must be made to a organization described as a 50% limit organization (as described in Publication 526).



## Temporary Suspension of Limitations on Charitable Contributions (continued)

### Example:

Tim has a contribution base (AGI) of \$100,000; and, he made contributions of \$60,000 to his church on August 15, 2005 and \$40,000 to the Red Cross on September 15, 2005.

Usually, his contribution limitation to these organizations would be 50% or \$50,000; however, since the Red Cross contribution is a qualified contribution under the Katrina provisions, he is entitled to claim a deduction of \$90,000 (\$50,000 – church & \$40,000 – Red Cross).

The contribution of \$60,000 to his church is limited to a \$50,000 deduction, since this contribution was made prior to the new Katrina provisions.

# Temporary Suspension of Limitations on Charitable Contributions (continued)

## Example (continued)

Here is the math:

Contribution base (AGI) of \$100,000

- \$60,000 contribution to church
- \$40,000 contribution to Red Cross

Church contribution allowed - \$50,000  
(50% of contribution base)

Red Cross contribution allowed - \$40,000

Total deductible contributions - \$90,000



# Additional Exemption for Housing Hurricane Katrina Displaced Individuals

Title III, Section 302

## Effective Date

This provision applies to taxable years beginning in 2005 and 2006.

# Additional Exemption for Housing Hurricane Katrina Displaced Individuals (continued)

## Present Law

Generally, an individual is entitled to claim an exemption for themselves, their spouse (if filing jointly) and any dependents.

In 2005, the amount deductible for each exemption is \$3,200, subject to phase-outs when the taxpayer's AGI reaches certain limitations.

# Additional Exemption for Housing Hurricane Katrina Displaced Individuals (continued)

## Change in Law

This provision provides for an extra \$500 exemption for each **Hurricane Katrina displaced individual** housed in the taxpayer's home for 60 consecutive days.

Since this exemption may be claimed for no more than 4 individuals, the limit is \$2,000 per year.



# Additional Exemption for Housing Hurricane Katrina Displaced Individuals (continued)

## Change in Law (continued)

### Who is a Hurricane Katrina displaced individual?

It is someone (1) whose principal place of abode on August 28, 2005 was in the Hurricane Katrina disaster area, (2) who is displaced from such abode, and (3) who is provided housing **free of charge** in the **taxpayer's principal place of residence** for a **period of 60 consecutive days** which ends in the taxable year in which the exemption is claimed.

# Additional Exemption for Housing Hurricane Katrina Displaced Individuals (continued)

## Clarifications:

- The exemption with respect to any displaced individual may only be claimed **one time** for all taxable years.

Example. If Aunt Betty, a displaced Hurricane Katrina victim, moved in with the taxpayer in September 2005 and stayed until the end of 2006, the taxpayer may only claim an exemption for her for one of those two years.



# Additional Exemption for Housing Hurricane Katrina Displaced Individuals (continued)

## Clarifications: (continued)

- The displaced individual **may not be the spouse or dependent** of the taxpayer.
- The taxpayer must **provide the TIN of the displaced individual**.
- The exemption is **not allowed** if the TP **receives any rent or other amount from any source** in connection with providing housing for displaced individual.
- Additional exemption **is not subject to income based phase-outs**.



# Increase in Standard Mileage Rate for Charitable Use of Vehicles

Title III, Section 303

## Effective Date

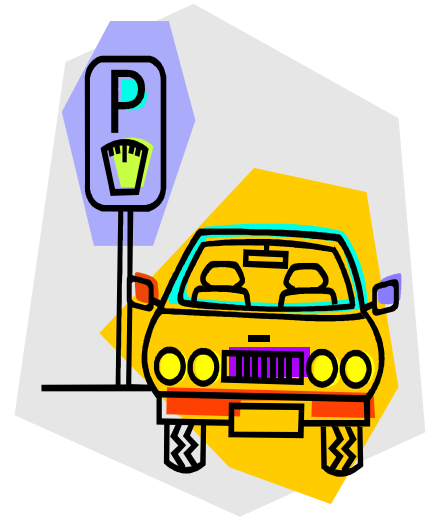
This provision applies for purposes of contributions made during the period **beginning on August 25, 2005 and ending on December 31, 2006.**



# Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

## Present Law

In general, unreimbursed out-of-pocket expenditures made while providing donated services to a qualified charitable organization – such as expenses associated with using your personal vehicle to perform donated services – may qualify as a charitable contribution.

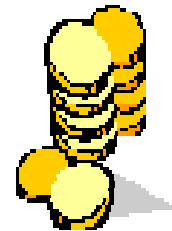


# Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

## Present Law (continued)

A taxpayer who uses a personal vehicle while providing donated services may **either deduct actual out-of-pocket** expenditures or may use the charitable **standard mileage rate of 14 cents** per mile.

Under either method, the TP may also deduct parking fees and tolls incurred while rendering the donated services.



# Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

## Change in Law

A taxpayer who uses a personal vehicle while providing donated services for Hurricane Katrina relief efforts is eligible to deduct mileage equal to **70 percent of the business mileage rate in effect on the date of contribution rounded to the next highest cent.**

As outlined in the “present law section”, the taxpayer also has the option of using the actual out-of-pocket expenditures.

# Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

## Change in Law (continued)

### Two Standard Mileage Rates in 2005

For 2005, two standard mileage rates were in effect for business use of an automobile.

From **1/1/2005 through 8/24/2005**, the rate is **14 cents/mile**.

From **8/25/2005 through 8/31/2005**, the rate is 70%  
**40.5 cents/mile**.

From **9/1/2005 through 12/31/2005**, the rate is 70% of **48.5 cents/mile**.

# Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

## Example 1:

A taxpayer delivered water to Hurricane Katrina victims on August 28, 2005 and logged in 75 miles. Their deduction, **under the present law** would have been  $75 \text{ miles} \times .14 = \$10.50$ .

**Under provisions of this act**, the deduction would be  $75 \text{ miles} \times .405 \text{ (rate on 8/28/05)} \times .70 \text{ (70\% of business rate)} = \$21.75$



## Increase in Standard Mileage Rate for Charitable Use of Vehicles (continued)

### Example 2:

If the taxpayer had delivered water on September 1, 2005, their deduction would be 75 miles X .485 (rate on 9/1/05) X .70 (70 % of business rate) = \$25.50.



# Mileage Reimbursements to Charitable Volunteers Excluded from Gross Income

Title III, Section 304

## Effective Date

This provision applies for purposes of use of a passenger automobile during the period beginning on August 25, 2005 and ending on December 31, 2006.



# Mileage Reimbursements to Charitable Volunteers Excluded from Gross Income

(continued)

## Present Law

Charitable Volunteers who are reimbursed for mileage expenses have taxable income to the extent the reimbursement exceeds deductible travel expenses.

# Mileage Reimbursements to Charitable Volunteers Excluded from Gross Income

(continued)

## Change in Law

Reimbursement by an organization to a volunteer for the costs of using a personal automobile in providing donated services towards the relief efforts related to Hurricane Katrina are **excludable from the gross income of the volunteer** up to an amount that does not exceed the business standard mileage rate.

### **Summary of 2005 Excludable Mileage Reimbursement Rates:**

From **1/1/2005 through 8/24/2005**, the rate is **14 cents/mile** (prior Katrina).

From **8/25/2005 through 8/31/2005**, the rate is **40.5 cents/mile**.

From **9/1/2005 through 12/31/2006**, the rate is **48.5 cents/mile**.

# Suspension of Certain Limitations on Personal Casualty Losses

Title IV, Section 402

## Effective Date

This provision is effective for losses arising on or after August 25, 2005.

**NOTE:** Casualty losses are out of scope for VRPP (VITA & TCE).

# Suspension of Certain Limitations on Personal Casualty Losses (continued)

## Present Law

A taxpayer may generally claim a deduction for any loss sustained during the taxable year that was not reimbursed by insurance.

For individual taxpayers, deductible losses must be incurred in a trade or business or consist of property losses arising from casualty or theft. These losses are only deductible if **they exceed \$100 and 10% of the taxpayer's AGI.**

# Suspension of Certain Limitations on Personal Casualty Losses (continued)

## Change in Law

Basically, this provision removes the restrictions described on the previous slide.

For personal casualty and theft losses attributed to **Hurricane Katrina**, there is no \$100 minimum or 10% of AGI limitation.



# Special Look-Back Rule for Determining Earned Income Credit and Additional Child Tax Credit

Title IV, Section 406

## Effective Date

This provision is effective for the taxable year of a qualified individual that includes August 25, 2005.



# Special Look-Back Rule for Determining Earned Income Credit and Additional Child Tax Credit (continued)

## Present Law

Currently, the **Earned Income Credit (EIC)** is a refundable credit for lower-income workers. The amount of credit depends on the earned income of the taxpayer and whether the taxpayer has one, more than one, or no qualifying children.

In addition, taxpayers with incomes below a certain threshold are eligible for a \$1,000 **Child Tax Credit** for each qualifying child. The credit is refundable to the extent of 15% of the taxpayer's earned income in excess of \$10,000.

# Special Look-Back Rule for Determining Earned Income Credit and Additional Child Tax Credit (continued)

## Change in Law

This provision permits **qualified individuals** to elect to calculate their EIC and refundable child tax credit for tax year 2005 using their earned income from the prior taxable year.



# Special Look-Back Rule for Determining Earned Income Credit and Additional Child Tax Credit (continued)

## Change in Law (continued)

**Qualified individuals** are those (1) individuals who on August 25, 2005, had their primary residence in the core disaster area or (2) individuals who on such date were not in the core disaster area but lived in the Hurricane Katrina disaster area and were displaced from their homes.

**One more thing** ...this election can only be made if the taxpayer's earned income for 2005 is less than the earned income for 2004.

# Secretarial Authority to Make Adjustments Regarding Taxpayer and Dependency Status for Taxpayers Affected by Hurricane Katrina

Title IV, Section 407

## Effective Date

This provision is effective with respect to taxable years beginning in 2005 and 2006.

# Secretarial Authority to Make Adjustments Regarding Taxpayer and Dependency Status for Taxpayers Affected by Hurricane Katrina

(continued)

## Change in Law

Taxpayers are eligible for personal exemptions for themselves, their spouses (if filing jointly) and their dependents. Eligible taxpayers are also able to claim the EITC and Child Tax Credit.

# Secretarial Authority to Make Adjustments Regarding Taxpayer and Dependency Status for Taxpayers Affected by Hurricane Katrina

(continued)

## Change in Law (continued)

**This provision** authorizes the Secretary to make adjustments in the application of the Federal tax law as may be necessary to ensure that taxpayers do not lose any deductions or credits or experience a change in filing status due to a temporary relocation caused by Hurricane Katrina.

# Secretarial Authority to Make Adjustments Regarding Taxpayer and Dependency Status for Taxpayers Affected by Hurricane Katrina

(continued)

## Example:

Jack is temporarily separated from his kids due to Katrina. Jack has always filed as HOH and claimed both his children as dependents, but because he placed them with relatives, he hasn't lived with them for more than half the year. The Secretary has the authority to "adjust" the HOH rules in Jack's case so that he will not lose his dependency deductions and filing status.

## Help for Hurricane Victims

**For More information on the Katrina  
Emergency Tax Relief Act of 2005 and  
Help for Hurricane Victims:**

- **Web Site - [www.irs.gov](http://www.irs.gov)**
- **IRS Disaster Hotline for Hurricane Questions –  
1-866-562-5227**